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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

OMB APPROVAL	
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FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2011 AND ENDING December 31, 2011
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Southside Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 South Beckham Avenue

(No. and Street)

Tyler

Texas

75701

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Coogan

(903) 531-7288

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Pricewaterhouse Coopers, LLP

(Name - if individual, state last, first, middle name)

2001 Ross Avenue, Suite 1800

Dallas

Texas

75201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions



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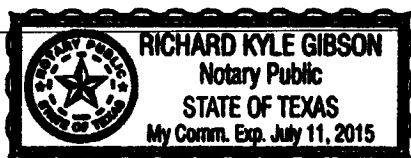
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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OATH OR AFFIRMATION

I, Michael Coogan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Southside Securities, Inc., as of December 31, 20 11, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Michael Coogan
Signature

Designated Principal

Title

[Signature]
Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Index
December 31, 2011

Report of Independent Auditors	1
Financial Statements	
Statement of Financial Condition	2
Statement of Operations	3
Statement of Changes in Shareholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9
Supplemental Schedules	
Schedule I: Computation of Net Capital under Rule 15c3-1 of the Securities and Exchange Commission.....	10
Schedule II: Computation for Determination of Reserve Requirements under Rule 15c3-3 of the Securities and Exchange Commission.....	11
Schedule III: Information for Possession or Control Requirements under Rule 15c3-3 of the Securities and Exchange Commission	12
Report of Independent Auditors on Internal Control Pursuant to SEC Rule 17a-5.....	13-14



Report of Independent Auditors

To the Board of Directors and Shareholder of
Southside Securities, Inc.:

In our opinion, the accompanying statement of financial condition and the related statements of operations, of changes in shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Southside Securities, Inc. (the "Company") at December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements, the Company has extensive transactions and relationships with affiliates.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II and III, is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 28, 2012

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Statement of Financial Condition
December 31, 2011

Assets

Cash in affiliate bank	\$	425,733
Deposits in clearing organization		250,048
Restricted cash in clearing account		250,000
Receivable from clearing broker, net		50,537
Furniture, fixtures and equipment, net of accumulated depreciation of \$3,418		20,760
Income tax receivable from parent		81,618
Other assets		8,374
Total assets	\$	<u>1,087,070</u>

Liabilities and Shareholder's Equity

Liabilities:

Accounts payable and accrued expenses	\$	62,500
Deferred tax liability		7,266
Due to affiliate		194,539
Total liabilities		<u>264,305</u>

Commitments and Contingencies (Note 8)

Shareholder's equity:

Common stock - \$.01 par value, 1,000 shares authorized; 1,000 shares issued and outstanding		10
Paid in capital		1,000,990
Accumulated deficit		<u>(178,235)</u>
Total shareholder's equity		822,765
Total liabilities and shareholder's equity	\$	<u>1,087,070</u>

The accompanying notes are an integral part of these financial statements.

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Statement of Operations
For the Year Ended December 31, 2011

Revenues	
Interest	\$ 362
Trading	111,181
Total revenues	<u>111,543</u>
Expenses	
Salaries and employee benefits	191,376
Occupancy	7,590
Depreciation	3,418
Equipment	28,723
Advertising, travel and entertainment	5,494
Supplies	3,668
Professional fees	112,859
Regulatory	8,393
Brokerage and clearing fees	10,022
Other expenses	3,609
Total expenses	<u>375,152</u>
Loss before income tax benefit	(263,609)
Income tax benefit	92,263
Net loss	<u>\$ (171,346)</u>

The accompanying notes are an integral part of these financial statements.

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Statement of Changes in Shareholder's Equity
For the Year Ended December 31, 2011

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Shareholder's Equity</u>
Balance at January 1, 2011	\$ 10	\$ 1,000,990	\$ (6,889)	\$ 994,111
Net loss	<u>—</u>	<u>—</u>	<u>(171,346)</u>	<u>(171,346)</u>
Balance at December 31, 2011	<u>\$ 10</u>	<u>\$ 1,000,990</u>	<u>\$ (178,235)</u>	<u>\$ 822,765</u>

The accompanying notes are an integral part of these financial statements.

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash flows from operating activities:	
Net loss	\$ (171,346)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	3,418
Deferred tax expense	7,266
Net changes in assets and liabilities:	
Deposits in clearing organization	(250,048)
Restricted cash in clearing account	(250,000)
Receivable from clearing broker, net	(50,537)
Income tax receivable from parent	(77,908)
Other assets	(8,374)
Due to affiliate	194,539
Accounts payable and accrued expenses	52,301
Net cash used in operating activities	<u>(550,689)</u>
Cash flows from investing activities:	
Purchases of furniture, fixtures and equipment	<u>(24,178)</u>
Net cash used in investing activities	<u>(24,178)</u>
Net decrease in cash	(574,867)
Cash at beginning of year	<u>1,000,600</u>
Cash at end of year	<u><u>\$ 425,733</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Notes to Financial Statements
December 31, 2011

1. Organization and Formation

Southside Securities, Inc. (the "Company") was organized on April 8, 2010 as a wholly owned subsidiary of Southside Bancshares, Inc. (the "Parent"). Southside Bank (the "Affiliate") is a wholly owned subsidiary of Southside Bancshares, Inc. The Company is a registered, fully disclosed, introducing broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is subject to regulations by FINRA and various government agencies, including the Securities and Exchange Commission and the Texas Securities Department. Such agencies may require certain standards or impose certain limitations based on their judgments.

The Company does not carry customer accounts or perform custodial functions relating to customer securities. Accordingly, the Company is exempt from SEC Rule 15c3-3(k)(2)(ii) from certain regulations concerning reserves and protection of customer securities; consequently, Computation for Determination of Reserve Requirements and Information Relating to the Possession or Control Requirements pursuant to SEC Rule 15c3-3 are not required.

2. Significant Accounting Policies

Use of Estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to prevailing practices within the securities broker-dealer industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates.

Cash

For purposes of the statement of cash flows, the Company has defined cash as cash on hand, amounts due from banks and other financial institutions, and money market accounts, with original maturities of less than three months.

Restricted cash in clearing account

The Company maintains restricted accounts at its clearing broker. The total amount of restricted cash is \$250,000, as of December 31, 2011.

Trading Income

Trading revenue and brokerage and clearing fees are recorded on a trade-date basis as securities transactions occur.

Income Taxes

The Parent files a consolidated federal income tax return with its subsidiaries, including Southside Securities, Inc. The Company recognizes tax benefits to the extent they are utilized in the consolidated return. The Company has a deferred tax liability at December 31, 2011 of \$7,266 related to the depreciation on furniture, fixtures and equipment. Deferred income tax assets and liabilities are determined using the asset and liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effect of the differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Company recognizes and measures its unrecognized tax benefits and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Notes to Financial Statements
December 31, 2011

based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company does not have any uncertain tax positions that would require accrual. No penalty or interest has been recognized on the accompanying Statement of Operations. As of December 31, 2011, the tax periods since the commencement of operations remain subject to examination by various tax jurisdictions under the statute of limitations. In addition, Management does not expect a significant change in uncertain tax positions during the twelve months subsequent to December 31, 2011.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful lives of the related assets. Useful lives are estimated to be three to ten years for furniture, fixtures and equipment. Maintenance and repairs are charged to income as incurred while major improvements and replacements are capitalized.

Fair Value Measurements

The Company's financial instruments include cash, accounts receivable, and accounts payable. The carrying amounts for these assets is a reasonable estimate of their fair values. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value determination requires that a number of significant judgments are made. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

3. Balances and Transactions with Affiliate

In the normal course of business, the Company has entered into transactions with its Parent and the Affiliate. Such balances and transactions as of and for the year ended December 31, 2011 are summarized as follows:

Statement of financial condition:

Cash	\$ 425,733
Income tax receivable from parent	81,618
Due to affiliate	(194,539)
	<u>\$ 312,812</u>

Statement of operations:

Trading revenue	\$ 89,668
Salaries and employee benefits	(191,376)
Occupancy	(7,590)
	<u>\$ (109,298)</u>

The Company reimburses its Affiliate for salaries and employee benefits and rent. A bank account is also maintained with the Affiliate.

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Notes to Financial Statements
December 31, 2011

4. Securities

The Company has a securities clearing agreement with First Southwest Company, primarily to provide clearing services for the Company. The agreements, on a fully disclosed basis, introduce certain customers to First Southwest Company that they, as Independent Contractors, have agreed to clear and carry the amounts of the Company's customers subject to the terms and conditions of the agreements. The agreements indemnify the Company and its Parent against any claims or damages arising from the agreements based upon the ordinary negligence or willful misconduct of First Southwest Company or its employees in providing the services under these agreements. The agreement with First Southwest Company is for a three-year period and expires on July 5, 2014.

5. Liabilities Subordinated to the Claims of General Creditors

As of and during the year ended December 31, 2011, the Company had no liabilities subordinated to the claims of general creditors.

6. Income Taxes

The income tax benefit was comprised of the following for the year ended December 31, 2011:

Current tax benefit	\$ (99,529)
Deferred tax provision	7,266
	<u>\$ (92,263)</u>

The tax effects of temporary differences that give rise to the deferred tax liability at December 31, 2011 are presented below:

Deferred tax liability:	
Equipment	\$ 7,266
Net deferred tax liability	<u>\$ 7,266</u>

7. Minimum Net Capital Requirement

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Any retained earnings would be restricted as to payment of dividends if this ratio exceeds 10 to 1. At December 31, 2011, the Company had computed regulatory net capital (as defined) of \$331,280, which was \$211,280 in excess of its required net capital of \$120,000. The Company's ratio of aggregate indebtedness to net capital was 79.78% at December 31, 2011.

The Company claims exemption from the provisions of Rule 15c3-3 under the Act in that the Company's activities are limited to those set forth in the conditions for exemption in accordance with paragraph (k)(2)(ii) of that Rule.

8. Off-Balance-Sheet Arrangements, Commitments and Contingencies

The Company has provided a guarantee to their clearing broker. Under the agreement, the Company has agreed to indemnify the clearing broker for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company's liability under these arrangements is not reasonably estimable. However, the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no contingent liability is

SOUTHSIDE SECURITIES, INC.
(A Wholly Owned Subsidiary of Southside Bancshares, Inc.)
Notes to Financial Statements
December 31, 2011

carried on the balance sheet for these transactions.

The Company, in its capacity as a broker dealer, is subject to litigation and various claims, as well as examination by regulatory agencies. Based upon defenses available and after consultation with legal counsel, the Company's management expects the ultimate resolution of these and other matters will not have a material effect on the Company's results of operations or financial position. The Company is currently not involved with any claims or legal actions arising in the ordinary course of business.

The Company has obligations under an operating lease with initial noncancelable terms in excess of one year. Aggregate annual rentals for office space at December 31, 2011, are as follows:

<u>Years Ending</u>	
2012	\$ 7,590
2013	<u>7,590</u>
	<u>\$ 15,180</u>

9. Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include banks, broker dealers and other financial institutions. In the event counterparties do not fulfill their responsibilities, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

SOUTHSIDE SECURITIES, INC.
Schedule I – Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
December 31, 2011

Net Capital			
Shareholder's equity per Statement of Financial Condition		\$	822,765
Less – Nonallowable assets			
Furniture, fixtures and equipment, net of accumulated depreciation	\$	20,760	
Other assets		8,374	
Income tax receivable from Parent		81,618	
Total nonallowable assets			110,752
Other deductions or charges			380,733
Total deductions from net worth			491,485
Net capital before haircuts on securities positions			331,280
Haircuts on securities			—
Total net capital as defined by Rule 15c3-1			331,280
Minimum net capital required under Rule 15c3-1			100,000
Net capital in excess of minimum requirements ⁽¹⁾		\$	231,280
Net capital requirement		\$	120,000
Excess capital			211,280
Aggregate indebtedness			
Items included in statement of financial condition:			
Due to affiliate			194,539
Deferred tax liability			7,266
Accounts payable and accrued expenses			62,500
Total aggregate indebtedness		\$	264,305
Ratio of aggregate indebtedness to net capital			79.78%

⁽¹⁾ There are no material differences between the above computation and that filed by the Company on its unaudited Form X-17a-5 as of December 31, 2011 filed on January 26, 2012.

SOUTHSIDE SECURITIES, INC.
Schedule II – Computation for Determination of Reserve Requirement under
Rule 15c3-3 of the Securities and Exchange Commission
December 31, 2011

Computation for Determination of Reserve Requirements

The Company is exempt from the reserve requirements and the related computations for the determination thereof under Rule 15c3-3 under the Securities and Exchange Act of 1934 as the Company carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a broker or dealer, does not otherwise hold funds or securities for, or owe money or securities to customers and effectuates all financial transactions with customers through unaffiliated clearing organizations.

During the year ended December 31, 2011, the Company has maintained compliance with the conditions for exemption specified in paragraph (k)(2)(ii) of Rule 15c3-3.

SOUTHSIDE SECURITIES, INC.
Schedule III – Information for Possession or Control Requirements under
Rule 15c3-3 of the Securities and Exchange Commission
December 31, 2011

	<u>Market Value</u>	<u>Number of Items</u>
Customers' fully paid securities and excess margin securities not in the Company's possession or control as of December 31, 2011 for which instructions to reduce to possession or control had been issued as of December 31, 2011 but for which the required action was not taken within the time frames specified under Rule 15c3-3	None	None
Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2011 excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3	None	None

See accompanying independent auditors' report.



Report of Independent Auditors on Internal Control Pursuant to SEC Rule 17a-5

To the Board of Directors and Shareholder of
Southside Securities, Inc.:

In planning and performing our audit of the financial statements of Southside Securities, Inc. (the "Company") as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future



periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. However, we identified the following deficiency in internal control that we consider to be a material weakness, as defined above. This deficiency was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the Company, as of and for the year ended December 31, 2011, and this report does not affect our report thereon dated February 28, 2012.

At December 31, 2011, the Company did not maintain effective monitoring controls over the financial reporting process, including the preparation and review of the net capital computation. Specifically, the Company lacked a sufficient level of review in the application of generally accepted accounting principles and the net capital computation. This control deficiency resulted in audit adjustments to accounts payable, salaries expense and income taxes and as well as the net capital computation in the 2011 financial statements. In addition, these control deficiencies could result in a misstatement of the accounts payable, salaries expense and income taxes accounts that would cause a material misstatement of the Company's financial statements that would not be prevented or detected. Accordingly, this control deficiency constitutes a material weakness.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. However, as discussed in the preceding paragraph we identified a deficiency in internal control that we consider to be a material inadequacy. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the Company, as of and for the year ended December 31, 2011, and this report does not affect our report thereon dated February 28, 2012.

This report is intended solely for the information and use of the members, management, the SEC, the Financial Industry Regulatory Authority, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Eric W. Hines" followed by a stylized flourish.

February 28, 2012